

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 PA-01 USIA-06 PRS-01 AEC-05

AID-05 CEA-01 CIAE-00 CIEP-01 DODE-00 EB-07 FPC-01

H-01 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

RSC-01 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00

FRB-03 NIC-01 /093 W

----- 080787

R 291513Z JAN 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 2604

DEPT OF COMMERCE WASHDC

INFO AMEMBASSY BELGRADE

AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW

AMCONSUL MUNICH

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY VIENNA

AMEMBASSY WARSAW

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E.O. 11652: GDS

TAGS: ENRG, ETRD, HU

SUBJ: MORE REPORTS OF PLANNED SOVIET OIL PRICE INCREASES

REF A: BUDAPEST 0229

B: BUADAPEST 3480, 19 DEC 1974

1. EMBASSY HAS LEARNED FROM USUALLY WELL INFORMED HUNGARIAN PRESS SOURCE OF RECENT BRIEFING GIVEN TO SENIOR NEWSPAPER EDITORS BY HIGH-RANKING PARTY OFFICIALS AT WHICH IT WAS STATED THAT SOVIETS WILL INCREASE CRUDE OIL PRICES TO HUNGARY AND OTHER EAST EUROPEAN COUNTRIES FROM 16 RUBLES TO 36 RUBLES PER TON RETROACTIVE TO JANUARY 1, 1975. SOURCE STATED THAT

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SOVIETS ORIGINALLY PROPOSED TO HUNGARIANS THAT PRICE INCREASES

BE MADE RETROACTIVE TO JANUARY 1, 1974, BUT BACKED OFF FROM THIS IN FACE OF VEHEMENT HUNGARIAN OPPOSITION. QUESTION OF OIL PRICES HAS PROMPTED FOUR MEETINGS BETWEEN TOP HUNGARIAN AND SOVIET OFFICIALS SINCE LAST OCTOBER.

2. SOURCE STATED THAT RATIONALE BEHIND SOVIET ACTION WAS PRIMARILY OBVIOUS ONE OF BEING RELUCTANT TO CONTINUE TO SUPPLY EASTERN EUROPEAN COUNTRIES WITH OIL AT SMALL FRACTION OF CURRENT WORLD MARKET PRICES BUT ADDED THAT OTHER FACTORS SUCH AS HUNGARIAN RELUCTANCE TO MAKE LARGE SCALE INVESTMENTS IN SOVIET UNION, IN PARTICULAR IN KURSK STEEL COMPLEX, AS WELL AS RUMOR THAT RECENT GEOPHYSICAL EXPLORATIONS IN USSR HAVE SHOWN SOVIET OIL RESERVES TO BE SOMEWHAT LESS THAN EXPECTED HAVE ALSO BEEN IMPORTANT CONSIDERATIONS. ONE CONCESSION SOVIETS ALLEGEDLY HAVE MADE TO HUNGARIANS IS TO ALLOW LATTER TO BUY UNSPECIFIED QUANTITY OF MID-EAST CRUDE AT WORLD PRICES FOR DIRECT SHIPMENT TO SOVIET UNION WHICH WOULD IN TURN DELIVER EQUAL AMOUNTS OF OIL TO HUNGARY THROUGH EXISTING PIPELINE NETWORK.

3. ON OTHER SUBJECTS NOT RELATED TO OIL, SENIOR EDITORS WERE REPORTEDLY TOLD THAT KADAR WILL DEFINITELY REMAIN IN POSITION FOLLOWING UPCOMING PARTY CONGRESS. COMMENT ON BRESHNEV'S HEALTH WAS ALSO FORTHCOMING WITH PARTY BRIEFER INFORMING EDITORS THAT BRESHNEV AS "VERY ILL" ALTHOUGH LATER MODIFYING THIS TO "VERY TIRED."

4. COMMENT: THIS LATEST INFORMATION OBTAINED FROM A SOURCE WHOSE PAST PREDICTIONS HAVE USUALLY PROVEN ACCURATE, FURTHER SUBSTANTIATES REPORTS THAT HAGGLING BETWEEN SOVIETS AND HUNGARIANS OVER TERMS OF 1975 BILATERAL TRADE AGREEMENT PRINCIPALLY SPARKED BY QUESTION OF OIL PRICE LEVELS (SEE REFTEL A). HUNGARIAN PRESS REPORTED IN LATE DECEMBER AGREEMENT BETWEEN APPROPRIATE HUNGARIAN AND SOVIET FOREIGN TRADING COMPANIES UNDER WHICH HUNGARY WOULD BE SUPPLIED 6 MILLION TONS OF CRUDE OIL AT UNCHANGED PRICE OF 15.89 RUBLES A TON DURING 1975. (SEE REFTEL B). HOWEVER, WE ARE TOLD THAT THIS AGREEMENT IS NOT VALID UNTIL INCORPORATED INTO A 1975 BILATERAL TRADE ACCORD AND IT NOW APPEARS LIKELY THAT AGREEMENT AS ORIGINALLY CONCLUDED

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WILL NOT ENTER INTO EFFECT. OUR FEELING IS THAT PRIMARY HUNGARIAN EFFORT AT THIS JUNCTURE MAY BE LESS TO PREVENT EARLY JUMP IN OIL PRICES -- WHICH MAY BE REGARDED AS INEVITABLE -- BUT RATHER TO TRY AND OBTAIN SIZABLE PRICE INCREASES FOR HUNGARIAN PRODUCTS DELIVERED TO SOVIET UNION, A REDUCTION IN SIZE OF HUNGARIAN COMMITMENTS TO SOVIET INVESTMENT PROJECTS, AND POSSIBLY THE EXTENSION OF SOVIET CREDITS TO HUNGARY ON FAVORABLE BASIS.

PEDERSEN

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